

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

ENERGY DIVISION

Agenda ID 13498  
RESOLUTION E-4687  
January 15, 2015

**R E S O L U T I O N**

Resolution E-4687. PacifiCorp requests authorization to establish the Carbon Decommissioning Cost Memorandum Account (CDCMA).

**PROPOSED OUTCOME:**

- This Resolution approves PacifiCorp's request to establish the CDCMA and implement associated tariffs, and denies the protest of the Office of Ratepayer Advocates (ORA).

**SAFETY CONSIDERATIONS:**

- An unspecified portion of Carbon Plant decommissioning activities, whose costs will be booked to the CDCMA, pose inherent safety risks. However, the authorization of the CDCMA itself does not entail any incremental safety considerations.

**ESTIMATED COST:**

- This Resolution's establishment of the CDCMA to track decommissioning costs and an accelerated depreciation schedule does not pre-judge the reasonableness of these costs for rate recovery, for which PacifiCorp must receive approval in a subsequent proceeding. PacifiCorp estimates a \$1.14 million, California-allocable difference in depreciation expense and removal costs over what is currently in rates.

By Advice Letter 496-E filed on December 4, 2013.

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## **SUMMARY**

PacifiCorp filed Advice Letter (AL) 496-E on December 4, 2013 requesting authorization to establish the Carbon Decommissioning Cost Memorandum Account (CDCMA) to record decommissioning and accelerated depreciation expenses allocable to California jurisdictional ratepayers associated with the early retirement of Carbon Power Plant (Carbon Plant) near Helper, Utah. For reasons discussed below, PacifiCorp's request is found to be reasonable and is approved.

## **BACKGROUND**

**PacifiCorp is a multijurisdictional utility that provides electric service in six states. The Carbon Power Plant is a 172 MW coal-fired power plant that has been in commercial operation since 1954.**

PacifiCorp provides electric service to customers in Washington, Oregon, Wyoming, Idaho, Utah, and California. PacifiCorp serves 44,776 customers in its Northern California service territory, representing around 2.5% of PacifiCorp's 1.77 million total customers. PacifiCorp allocates the costs and wholesale revenues associated with its generation, transmission, and distribution systems among the six states it serves according to the "Revised Protocol" Inter-Jurisdictional Allocation Methodology ordered by the Public Utility Commission of Oregon in Order No. 05-021 (January 12, 2005), and adopted by the California Public Utilities Commission (Commission) in PacifiCorp's 2007 General Rate Case (GRC) Decision (D.), D.06-12-011.

The Carbon Plant is a two-unit, coal-fired power plant owned by PacifiCorp located just north of Helper, Utah. Unit 1 was commissioned in 1954, with Unit 2 following soon thereafter in 1956.<sup>1</sup>

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<sup>1</sup> [http://www.pacificorp.com/content/dam/pacificorp/doc/Energy\\_Sources/Energy\\_Generation\\_FactSheets/RMP\\_GFS\\_Carbon.pdf](http://www.pacificorp.com/content/dam/pacificorp/doc/Energy_Sources/Energy_Generation_FactSheets/RMP_GFS_Carbon.pdf)

**PacifiCorp anticipates an early retirement of the Carbon Plant due to heightened environmental regulations.**

In PacifiCorp's 2011 GRC, Application (A.)09-11-015, the Carbon Plant was scheduled to be retired in 2020, and the depreciation expense currently included in PacifiCorp's rates reflects this retirement date. Subsequent to the decision in that case (D.10-09-010), the U.S. Environmental Protection Agency (EPA) has issued new standards that will require PacifiCorp to install pollution controls at the Carbon Plant. However, PacifiCorp has deemed such retrofit options as installing scrubbers or converting to natural gas uneconomical, and has ruled out the implantation of additional required pollution controls due to space constraints. Thus, PacifiCorp anticipates retiring the Carbon Plant in April 2015.

**PacifiCorp filed AL 496-E to propose the establishment of the Carbon Decommissioning Cost Memorandum Account to track decommissioning costs and the difference between the depreciation expense in currently effective rates and an accelerated depreciation schedule.**

Because of its anticipated early retirement, PacifiCorp states that the Carbon Plant will have to be fully depreciated by April 2015. This would necessitate an accelerated depreciation schedule, as the Carbon Plant depreciation expense in currently-effective rates is based on the previously-expected 2020 retirement date. As such, PacifiCorp filed AL 496-E on December 4, 2013 to propose the establishment of the CDCMA in order to track the difference between the depreciation expense in currently-effective rates and that of an accelerated depreciation schedule from January 1, 2014 through April 2015, as well as future Carbon Plant decommissioning costs. As shown in Attachment 2 to AL 496-E, PacifiCorp estimates that the accelerated depreciation schedule will increase California ratepayers' share of Carbon Plant depreciation expense and removal costs by \$1.14 million over what is currently in rates.

PacifiCorp requests an effective date of January 3, 2014 for the changes proposed in AL 496-E.<sup>2</sup>

## **NOTICE**

Notice of AL 496-E was made by publication in the Commission's Daily Calendar. PacifiCorp states that a copy of AL 496-E was distributed on the General Order (G.O.) 96-B service list, in accordance with G.O. 96-B, Section 4.

## **PROTESTS**

**The Office of Ratepayer Advocates (ORA) filed a protest to AL 496-E, arguing that PacifiCorp's request is not appropriate for the advice letter process.**

ORA timely submitted a protest to AL 496-E on December 23, 2013. In its protest, ORA implores the Commission to reject AL 496-E because it believes that PacifiCorp's request is premature and is not appropriate for the advice letter process, as it involves complex and controversial ratemaking issues that are not supported by a factual evidentiary record, and does not respond to a formal ruling or order from any regulatory jurisdiction. ORA cites G.O. 96-B §5.1, "Matters Appropriate for Advice Letters," which states that "The primary use of the advice letter process is to review a utility's request to change its tariffs in a manner previously authorized by statute or Commission order."

Furthermore, ORA posits that merely anticipating an event, such as the early retirement of a power plant, does not necessitate such regulatory action as establishing a memorandum account to accelerate depreciation over currently-authorized levels or book estimates of decommissioning costs. ORA claims that establishing a memorandum account for these purposes is tantamount to prejudging the ratemaking treatment for the Carbon Plant without considering

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<sup>2</sup> PacifiCorp erroneously requested an effective date of January 3, 2013 for the provisions of AL 496-E. Subsequent to ORA's identification of the error and PacifiCorp's request, Energy Division recognizes and accepts the intended effective date of AL 496-E as January 3, 2014.

alternative ratemaking proposals or other issues related to a plant's retirement, such as reliability and replacement power. Instead, ORA recommends that PacifiCorp take up these issues in a formal proceeding, such as PacifiCorp's forthcoming Test Year 2016 GRC, such that a factual evidentiary record can be built around such controversial ratemaking and policy issues as the decommissioning of a power plant.

Finally, ORA notes that PacifiCorp erroneously requested an effective date of January 3, 2013 for the CDCMA, instead of January 3, 2014.

**PacifiCorp replied to ORA's protest, arguing that its request in AL 496-E parallels a previous request to establish a memorandum account, which was approved by the Commission, and that its request entails no ratemaking changes.**

PacifiCorp filed a reply to ORA's protest on January 2, 2014. In its reply, PacifiCorp counters ORA's claims that establishing a memorandum account to track decommissioning costs and accelerated depreciation expense is inappropriate for the advice letter process and would prejudice the reasonableness of the tracked costs. PacifiCorp cites its request in AL 342-E/E-A in which it requested permission to establish a cost memorandum account for decommissioning costs associated with the Powerdale Generation Facility. The Commission, in approving PacifiCorp's request in Resolution E-4096, held that:

1. PacifiCorp may record decommissioning costs in the memorandum account on a monthly basis, along with detailed records of how the costs were derived;
2. Recorded costs may only be recovered in rates after PacifiCorp files a formal application, provides a showing of reasonableness, and receives Commission approval; and
3. The authorization to track decommissioning costs does not prejudice the amounts that PacifiCorp may recover in California customers' rates, the allocation of those amounts to different customer classes, nor the cost-effectiveness of early decommissioning.

PacifiCorp states that it seeks the same authority in AL 496-E that was granted by Resolution E-4096. Additionally, PacifiCorp notes that allowing it to establish

the CDCMA to record these costs now will assist the Commission in its review of the appropriateness of the costs in a future proceeding, as establishing memorandum accounts prior to booking costs helps to avoid retroactive ratemaking issues. PacifiCorp thus asks the Commission to reject ORA's protest and authorize the establishment of the CDCMA.

PacifiCorp also concedes that AL 496-E requested an incorrect effective date, and wishes to correct the date to January 3, 2014 through the reply.

## **DISCUSSION**

For the reasons specified below, PacifiCorp's request in AL 496-E to establish a memorandum account to track Carbon Plant decommissioning costs and the difference between currently-effective depreciation expense and an accelerated depreciation schedule is found to be reasonable, and is approved.

**ORA's protest incorrectly claims that PacifiCorp's request in AL 496-E is not appropriate for the advice letter process, and is denied.**

In its protest of AL 496-E, ORA claims that the advice letter process is not the appropriate forum for issues that are controversial, raise new factual and policy issues, or for which there have been no authorizing statutes or Commission orders. ORA further claims that the establishment of the "memorandum account would prejudice the ratemaking treatment for the Carbon Plant without considering other viable alternatives."<sup>3</sup> ORA cites G.O. 96-B §5.1 to support its arguments.

G.O. 96-B §5.1 maintains that "the advice letter process provides a quick and simplified review of the types of utility requests that are expected neither to be controversial nor to raise important policy questions." However, ORA is incorrect in arguing that the authority sought in AL 496-E constitutes a controversial policy question. ORA claims that the request in AL 496-E

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<sup>3</sup> ORA Protest of AL 496-E, p. 3.

effectively prejudices the ratemaking treatment of the Carbon Plant with regards to accelerated depreciation and decommissioning, but PacifiCorp clearly states in AL 496-E that “PacifiCorp seeks no [ratemaking] changes at this time. The [ratemaking] impacts of the requested actions, if approved, will be addressed in a subsequent proceeding,”<sup>4</sup> and “This Advice Letter filing will not increase any tariff rate, cause the withdrawal of any service, or conflict with any other schedule or rule.”<sup>5</sup> Furthermore, in its reply to ORA’s protest, PacifiCorp states that “Allowing PacifiCorp to establish the memorandum account to book these costs now will assist the Commission in its review of the appropriateness of the costs in a future formal proceeding,” and that “neither the establishment of a memorandum account nor the recording of costs would prejudice the amounts recorded in the account or the prudence of decommissioning.”<sup>6</sup> As such, ORA’s recommendation that the ratemaking issues surrounding the anticipated early retirement of the Carbon Plant be taken up in a future formal proceeding is valid, but it does not pertain to the establishment of the memorandum account to track the costs that will require a subsequent reasonableness review before receiving authorization for rate recovery.

ORA also evokes the stipulations of G.O. 96-B §5.1 in asserting that PacifiCorp’s request in AL 496-E does not constitute a tariff change in a manner previously authorized by statute or Commission order. However, the Commission has approved two similar requests by small, multijurisdictional utilities to establish memorandum accounts in recent years: Resolution E-4096, approving PacifiCorp’s request in AL 342-E/E-A to establish a memorandum account to track Powerdale Generation Facility decommissioning costs, and Resolution E-4464, approving California Pacific Electric Company’s request in AL 11-E/E-A to establish a memorandum account to track incremental vegetation management expenses above and beyond their authorized GRC budget. Both resolutions affirm that establishing the accounts does not imply the reasonableness of the costs booked therein, and that the utilities must receive

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<sup>4</sup> AL 496-E, p. 1.

<sup>5</sup> AL 496-E, p. 2.

<sup>6</sup> PacifiCorp Reply to ORA’s Protest of AL 496-E, p. 2.

Commission authorization in a future formal proceeding in order to amortize account balances in rates. PacifiCorp can thus be seen as requesting a tariff change through AL 496-E in a manner previously authorized by Commission order.

For these reasons, ORA's protest of AL 496-E is found to be without merit, and is denied.

**PacifiCorp is authorized to establish the Carbon Decommissioning Cost Memorandum Account effective on the requested date of January 3, 2014.**

Memorandum accounts allow a utility to track costs arising from events that were not reasonably foreseen in the utility's last GRC. By tracking these costs, a utility preserves the opportunity to seek recovery of these costs at a later date without raising retroactive ratemaking issues. However, when the Commission authorizes a memorandum account, it has not yet determined whether recovery of the booked costs is appropriate, unless so specified.<sup>7</sup>

PacifiCorp's request in AL 496-E to establish the CDCMA account to track Carbon Plant decommissioning costs and the difference between currently-effective depreciation expense and an accelerated depreciation schedule is thus found to be reasonable, and is approved. PacifiCorp is directed to make the changes to the tariff sheets provided in Attachment 1 of AL 496-E effective on the requested, clarified date of January 3, 2014.

All costs recorded in the CDCMA are subject to a reasonableness review in a future formal proceeding initiated by an application filed by PacifiCorp. In that application, PacifiCorp shall provide justification for why the costs recorded in the account are reasonable and should be recovered in rates from its California customers. To that end, PacifiCorp is directed to maintain detailed records of how these tracked costs were derived, as to enable a determination of reasonableness by the Commission.

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<sup>7</sup> D.10-04-031, pp. 43-44.

This Resolution does not prejudice what amounts recorded in the memorandum account PacifiCorp may recover in California customers' rates, nor does it address the allocation of any amounts that the Commission may authorize for rate recovery to customer classes. Finally, this Resolution does not address the cost-effectiveness or reasonableness of the Carbon Plant's anticipated early retirement, accelerated depreciation, or subsequent decommissioning activities. Those issues shall be subject to Commission review in the formal proceeding in which PacifiCorp requests to amortize the CDCMA balance in rates.

### **COMMENTS**

Public Utilities Code section 311(g)(1) provides that this Resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Accordingly, this Draft Resolution was mailed to all parties for comment, and was placed on the Commission's agenda to be voted on no sooner than 30 days after mailing.

### **FINDINGS AND CONCLUSIONS**

1. PacifiCorp is a multijurisdictional utility that provides electric service to customers in Washington, Oregon, Wyoming, Idaho, Utah, and California.
2. PacifiCorp allocates costs and wholesale revenues among the six states it serves according to the "Revised Protocol" Inter-Jurisdictional Allocation Methodology.
3. The Carbon Power Plant (Carbon Plant) is a two-unit, 172 MW coal-fired power plant owned by PacifiCorp located just north of Helper, Utah.
4. PacifiCorp anticipates an early April 2015 retirement of the Carbon Plant, as potential retrofit options required to meet heightened U.S. Environmental Protection Agency air quality standards have been deemed to be uneconomic.
5. PacifiCorp filed AL 496-E on December 4, 2013 to propose the Carbon Decommissioning Cost Memorandum Account (CDCMA) in order to track Carbon Plant decommissioning costs and the difference between currently-effective depreciation expense and an accelerated depreciation schedule so that the Carbon Plant is fully depreciated by April 2015.

6. The Office of Ratepayer Advocates (ORA) filed a protest to AL 496-E, arguing that PacifiCorp's request raises new factual and policy issues, prejudices the ratemaking treatment of Carbon Plant decommissioning, and is thus not appropriate for the advice letter process.
7. PacifiCorp replied to ORA's protest, arguing that its request in AL 496-E parallels a previous request to establish a memorandum account, which was approved by the Commission, and that its request entails no ratemaking changes.
8. ORA's protest incorrectly claims that PacifiCorp's request in AL 496-E is not appropriate for the advice letter process, and should be denied.
9. Memorandum accounts allow a utility to track costs arising from events that were not reasonably foreseen in the utility's last GRC. By tracking these costs, a utility preserves the opportunity to seek recovery of these costs at a later date without raising retroactive ratemaking issues.
10. PacifiCorp should be authorized to establish the CDCMA effective on the requested date of January 3, 2014.
11. All costs recorded in the CDCMA should be subject to a reasonableness review in a future formal proceeding initiated by an application filed by PacifiCorp.
12. This Resolution does not prejudice what amounts recorded in the CDCMA PacifiCorp may recover in California customers' rates, address the allocation of any amounts that the Commission may authorize for rate recovery to customer classes, nor address the cost-effectiveness or reasonableness of the Carbon Plant's anticipated early retirement, accelerated depreciation, or subsequent decommissioning activities.

**THEREFORE IT IS ORDERED THAT:**

1. PacifiCorp's request in AL 496-E to establish the Carbon Decommissioning Cost Memorandum Account is found to be reasonable, and is approved. PacifiCorp is directed to make the changes to the tariff sheets provided in Attachment 1 of AL 496-E effective on January 3, 2014.
2. PacifiCorp is directed to maintain detailed records of how costs booked to the Carbon Decommissioning Cost Memorandum Account were derived, as to

enable a determination of reasonableness by the Commission in a future formal proceeding initiated by a PacifiCorp application.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on January 15, 2015; the following Commissioners voting favorably thereon:

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PAUL CLANON  
Executive Director